

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF DELAWARE

IN THE MATTER OF THE APPLICATION OF)	
CHESAPEAKE UTILITIES CORPORATION FOR)	
APPROVAL OF CHANGES IN ITS FIRM)	
TRANSPORTATION BALANCING RATE AND)	PSC DOCKET NO. 03-489
ALLOCATION OF UNACCOUNTED FOR GAS)	
METHODOLOGIES)	
(FILED NOVEMBER 12, 2003))	

ORDER NO. 6457

AND NOW, this 10th day of August, 2004;

WHEREAS, the Commission having received and considered the July 16, 2004 Findings and Recommendations of the Hearing Examiner ("Report") issued in the above-captioned docket, which was submitted after a duly noticed public evidentiary hearing;

AND WHEREAS, the Hearing Examiner recommends that the proposed Settlement Agreement, which is endorsed by all the parties, and which is attached to his Report as "Attachment A", be approved;

AND WHEREAS, the Commission finds that the proposed settlement is just and reasonable and that adoption of the Settlement Agreement is in the public interest; now, therefore,

IT IS ORDERED:

1. That, by and in accordance with the affirmative vote of a majority of the Commissioners, the Commission hereby adopts the Findings and Recommendations of the Hearing Examiner, appended to the original hereof as "Attachment A".

3. That the Commission reserves the jurisdiction and authority to enter such further Orders in this matter as may be deemed necessary or proper.

/s/ Arnetta McRae

Chair

/s/ Donald J. Puglisi
Commissioner

/s/ Joann T. Conaway
Commissioner

/s/ Jaymes B. Lester
Commissioner

/s/ Karen J. Nickerson
Secretary

"A T T A C H M E N T A"

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FINDINGS AND RECOMMENDATIONS OF THE HEARING EXAMINER

DATED: JULY 16, 2004

WILLIAM F. O'BRIEN
HEARING EXAMINER

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FINDINGS AND RECOMMENDATIONS OF THE HEARING EXAMINER

William F. O'Brien, duly appointed Hearing Examiner in this Docket pursuant to 26 Del. C. § 502 and 29 Del. C. ch. 101, by Commission Order No. 6336 dated December 23, 2003, reports to the Public Service Commission of Delaware ("Commission") as follows:

I. APPEARANCES

On behalf of the Applicant, Chesapeake Utilities Corporation - Delaware Division ("Chesapeake" or "Company"):

Parkowski, Guerke & Swayze, P.A.,
BY: WILLIAM A. DENMAN, ESQUIRE

On behalf of the Public Service Commission Staff ("Staff"):

Murphy Spadaro & Landon
BY: FRANCIS J. MURPHY, ESQUIRE

II. BACKGROUND

1. On November 12, 2003, Chesapeake filed with the Commission a limited issue application for approval to change Chesapeake's methodologies for determining firm transportation balancing rates and for allocating unaccounted for gas costs to its interruptible sales customers. The application was filed pursuant to the terms and conditions of the settlement agreement approved by the Commission in

PSC Docket No. 02-287F, Order No. 6268, dated September 9, 2003. Chesapeake requested only that the methodologies be approved in this case, with any associated rate changes to be included with Chesapeake's Gas Sales Service Rate (GSR) application to be filed on September 1, 2004 (with an effective date of November 1, 2004).

2. With its application, the Company filed the written direct testimonies of Jeffrey R. Tietbohl (Ex. 3)¹ and Jennifer A. Clausius (Ex. 2). On or about April 15, 2004, Staff filed the written direct testimony of Susan B. Neidig (Ex. 6), and on May 27, 2004, the Company filed the rebuttal testimony of Mr. Tietbohl (Ex. 4). The Division of the Public Advocate ("DPA") did not intervene or participate in this docket.

3. An evidentiary hearing, which was duly publicized (Ex. 2),² was conducted at the Commission's Dover, Delaware office on Thursday, July 1, 2004. Shortly before the beginning of the evidentiary hearing, the parties notified the Hearing Examiner that they had reached an agreement to settle the issues raised in this Docket.

4. At the July 1, 2004 hearing, the parties moved the Proposed Settlement Agreement ("Settlement" or "Settlement Agreement"), which was signed by each of the parties, into evidence. (Ex. 5.) The Company and Staff each presented a witness to sponsor various testimonies and to testify in support of the Settlement Agreement. No

¹ References to the Exhibits entered into the evidentiary record of this proceeding will be cited as "(Ex. ____)" or "(Ex. ____ at ____)." References to the transcript of the proceedings will be cited as "(Tr. at ____)."

² Ex. 1 consists of the affidavits of publication of notice of the filing of the application and notice of the evidentiary hearing.

members of the public attended or otherwise participated in the hearing.

5. The record consists of 36 pages of verbatim transcript and six (6) exhibits. As there were no matters in dispute, briefs were deemed unnecessary. On July 9, 2004, the parties submitted a jointly proposed Hearing Examiner's Report, which is largely reproduced here. I have considered the entire record of this proceeding and, based thereon, I submit for the Commission's consideration these Findings and Recommendations.

III. THE POSITIONS OF THE PARTIES AND SUMMARY OF EVIDENCE

6. **The Company.** In response to Staff's concern that Chesapeake's firm transportation balancing servicing revenues were not sufficient to compensate the Company's firm gas sales service customers for the fixed capacity being utilized by the firm transportation customers, Mr. Tietbohl testified that only minimal changes were necessary to the Company's current methodology for calculating the firm transportation balancing service rates. (Ex. 3 at 7.) The minimal change advocated by the Company as proposed in its prefiled testimony was to update certain information used in its calculation, i.e. the weighted average annual load factor, the estimated imbalance, and average day to design day ratio.

7. The Company recommended using the same methodology used by the Company in calculating its firm transportation balancing rates, but updating several additional components of that calculation (to wit, the weighted average annual load factor, estimated imbalance, and average day to design day ratio) at the time the Company files its annual GSR application. According to the Company, by continuing to update the information annually, any significant changes in the

transportation customers' usage patterns will be reflected in the current firm transportation balancing rates. (Ex. 2 at 13-14.)

8. Regarding the allocation of unaccounted for gas costs to interruptible customers, the Company noted that, historically, the Company has been allowed to recover the gas costs associated with the unaccounted for gas volumes on its distribution system from its firm customer classes through their respective GSR charges. (Ex. 3 at 8-9.) However, Mr. Tietbohl indicated that the Company was not opposed to the overall concept of allocating or charging unaccounted for gas costs to interruptible sales customers, as well as firm sales customers. (Ex. 3 at 11.) Mr. Tietbohl testified, however, that any revisions or modifications would have an impact on the Company's risk inherent in the current margin sharing mechanism and base tariff rates that were approved by the Commission in PSC Order No. 6053, issued on November 19, 2002.

9. Mr. Tietbohl testified that as a result of the settlement in the Company's last base rate proceeding (PSC Docket No. 01-307, Phase II), \$800,000 of shared margins (which included interruptible sales margins) was used to offset the firm customers' revenue requirement and the resulting firm base rates. Under this mechanism, the Company is 100% at risk for the recovery of the first \$800,000 from customers in its shared margin class, including the interruptible customers. Mr. Tietbohl noted that when the \$800,000 threshold was set, unaccounted gas costs were not allocated to interruptible customers. (Ex. 3 at 12.) Accordingly, Mr. Tietbohl opined that if a portion of unaccounted gas costs (estimated to be \$125,000 at the time of the filing) is allocated to the interruptible sales customers, the net effect will be a decrease in firm customer GSR charges and a

corresponding decrease in the shared margins. Because the firm customers have already received the benefit of an upfront reduction in firm base rates of \$800,000, if no change is made in the \$800,000 margin sharing threshold at the time unaccounted gas costs are allocated to the interruptible customers, the Company would remain at risk for \$800,000 even though the achieved level of shared margins is reduced by the dollar amount of the unaccounted for gas costs allocated to the interruptible customers. (Ex. 3 at 12.)

10. To address this concern, Ms. Clausius set forth the Company's proposal in her prefiled testimony. Based on a \$125,000 estimated dollar amount of unaccounted gas costs to be allocated to the interruptible customers, the Company proposed, in its application, that firm customers' base rates be increased by \$125,000 and that the shared margin threshold be reduced from \$800,000 to \$675,000. (Ex. 2 at 15-17.)

11. In response to Staff's prefiled testimony (discussed below), the Company submitted its rebuttal testimony and modified its proposal with respect to the allocation of unaccounted gas costs to interruptible customers. As set forth in the rebuttal testimony of Mr. Tietbohl (Ex. 4), the Company believed that Staff's proposed methodology for adjusting the margin sharing mechanism was appropriate -- with one modification. That is, the Company would be allowed to make an adjustment to increase the amount of shared margins retained by the Company in order to make the Company whole if the actual level of shared margins is below the sharing threshold of \$800,000, as a result of the unaccounted for gas cost allocation. (Ex. 3 at 5.)

12. Under the Company's proposal, the Company would calculate a weighted average commodity cost of gas for each month in determining

its interruptible cost of gas, and increase the weighted average interruptible cost of gas per Mcf for each month by the applicable unaccounted for gas percentage. This inflated interruptible cost of gas per Mcf would then be multiplied by the interruptible sales volumes to arrive at the revised interruptible cost of gas reflecting the inclusion of unaccounted for gas costs. The difference between this inflated cost of gas and the weighted average cost of gas would represent the dollar amount of unaccounted for gas costs to be allocated to interruptible customers. (Ex. 2 at 14-15.)

13. **Staff.** As noted, Ms. Neidig presented Staff's position in her prefiled testimony. (Ex. 6.) Ms. Neidig supported the Company's alternate approach to updating the firm transportation balancing rates for transportation customers. (Ex. 6 at 3.) Regarding the allocation of unaccounted for gas costs to interruptible customers, Staff acknowledged that such allocation would affect the levels of margin sharing revenue retained by the Company. Staff did not agree, however, that there should be a one time adjustment to the \$800,000 level of non-firm margins inherent in base rates. Staff asserted that changes in firm base rates should not take place outside of a formal base rate proceeding. (Ex. 6 at 7.)

14. Nevertheless, Staff submitted an alternative proposal designed to keep Chesapeake whole, but through a modification of the margin sharing mechanism. Using the Company's proposed adjustment of \$125,000, Staff proposed increasing the margin sharing threshold from \$800,000 to \$831,250. Staff further proposed that the unaccounted for gas adjustment mechanism be updated annually and that its proposal be revisited in the future if and when there is evidence that the Company might be in danger of not reaching the threshold. (Ex. 6 at 9.)

15. Staff also expressed disagreement with the Company's proposed methodology for development of the unaccounted for gas costs to be allocated to interruptible customers. Staff supported an allocation methodology based on the interruptible volumes as a percentage of total sales volumes in the development of the unaccounted gas costs to be allocated to interruptible customers. Accordingly, Staff, in its prefiled testimony, did not support the Company's proposed adjustment of the weighted average interruptible cost of gas per Mcf for each month by the applicable unaccounted for gas percentage. Staff reiterated its position that the allocation of unaccounted gas costs to interruptible customers should be based on their volumetric consumption. (Ex. 6 at 10.)

16. **The Issues.** The pre-settlement positions of the parties indicate that there were essentially two issues in this docket: (a) the appropriate adjustment to the margin sharing mechanism to be used by the Company to take into account the allocation of unaccounted for gas costs to the interruptible customers; and (b) the appropriate method for determining the amount of unaccounted for gas costs to be allocated. The Settlement Agreement (Ex. 5) addresses these issues, as well as the undisputed matters.

IV. THE SETTLEMENT AGREEMENT

17. **Firm Transportation Balancing Rate Methodology.** Under the Settlement, the Company will continue to use its current methodology for calculating firm transportation balancing rates for the Large Volume Service, High Load Factor Service and Seasonal Firm Service

Rate Schedules, as approved by the Commission in PSC Docket No. 95-73, Phase II.

18. At present, the Company does not update certain calculations in adjusting its balancing rates. Under the Settlement, however, the Company will update, with each annual GSR application, the following calculations contained in its firm transportation balancing methodology: the weighted average annual load factor, estimated imbalance, and average day to design day ratio. The remaining calculations will continue to be updated as with past GSR applications. Changes to the transportation balancing rate methodology will be made when the Company files its next annual GSR application on September 1, 2004 to be effective November 1, 2004.

19. **Allocation of Unaccounted for Gas Methodology.** The Settlement provides that unaccounted for gas volumes will continue to be calculated by multiplying the respective total sales volume for each month, including firm and interruptible sales, by a calculated percentage to arrive at the estimated unaccounted for gas volumes each month. The calculated unaccounted for gas percentage will continue to be based on the most recent actual five-year history as approved by the Commission in PSC Docket No. 95-206.

20. Presently, unaccounted for gas costs are not allocated to the interruptible customers. Under the Settlement, however, unaccounted for gas costs will be allocated to interruptible customers by increasing the weighted average interruptible cost of gas per Mcf for each month by the applicable unaccounted for gas percentage. This adjusted cost of gas per Mcf will then be multiplied by the interruptible sales volumes to arrive at the revised interruptible cost of gas reflecting the inclusion of unaccounted for gas costs.

(See Step 1 of the Unaccounted for Gas Allocation Example attached to the Settlement Agreement as Exhibit 1.)

21. Each year, at the time the Company files its annual GSR application, the Company will calculate a revised margin sharing threshold for that determination period in order to keep the Company and its customers whole based on the projected amount of unaccounted for gas costs to be allocated to interruptible customers. (See Step 2 of the Unaccounted for Gas Allocation Example, Settlement Agreement, Exhibit 1.) At the conclusion of the Margin Sharing period, in the event that the actual shared margins received is less than the adjusted sharing threshold as a result of the allocation of unaccounted for gas costs, the Company will make an adjustment at that time to make the Company and its customers whole. (See Step 3 of the Unaccounted for Gas Allocation Example, Settlement Agreement, Exhibit 1.)³ The procedure for adjusting the margin sharing threshold level based on the allocation of unaccounted for gas costs will be reviewed at the time of the Company's next base rate proceeding.

22. The Company will begin to allocate unaccounted for gas costs to interruptible customers when the Company files its next GSR application on September 1, 2004, to be effective November 1, 2004.

V. DISCUSSION

23. Regarding the Commission's jurisdiction in this matter, the Company is a public utility, as defined by 26 Del. C. § 102(2). Under 26 Del. C. § 201(e), therefore, the Commission has "exclusive original supervision and regulation" of the Company as well as its "rates, property rights, equipment, facilities, service territories, and

franchises. . . .” As such, the Commission has jurisdiction over this matter.

24. For the following reasons, I recommend that the Commission approve the Settlement as reasonable and in the public interest. Staff presented the testimony of Susan B. Neidig, Case Manager, to support its participation in the settlement. (Tr. at 112.) The Company presented the testimony of Jeffrey R. Tietbohl in support of the settlement. (Tr. at 93.) Each witness testified regarding the justness and reasonableness of the terms and conditions of the settlement and all concluded that the Settlement Agreement was in the public interest. Each witness has requested that the Commission approve the proposed settlement as a reasonable resolution of the issues in this Docket.

25. Regarding the firm balancing rates, the Settlement will provide for periodic updates to certain costs that have not heretofore been updated, resulting in rates that are more reflective of the costs associated with providing the service. Regarding the allocation of unaccounted for gas costs to interruptible customers, both parties acknowledge that such an allocation is appropriate. The parties recognize that the allocation of such costs to the interruptible customers will have an effect on the dollar amount of the shared margins attributable to interruptible sales, and, as such, could alter the allocation of risk inherent in the current margin sharing thresholds heretofore approved by the Commission. The Settlement addresses this potential problem and provides for a periodic adjustment to the margin sharing threshold to account for any

³ Such adjustment would be limited to the unaccounted for gas costs originally . . . (footnote continued to next page.)

reduction in shared margins that may result from the allocation of unaccounted for gas costs to interruptible customers.

VI. RECOMMENDATIONS

31. In summary, and for the reasons discussed above, I propose and recommend to the Commission the following:

- A. That the Commission adopt as reasonable and in the public interest the attached Settlement Agreement ("Attachment A").
- B. That the proposed changes to the transportation balancing rate methodology be implemented when the Company files its next annual GSR application on September 1, 2004, to be effective November 1, 2004.
- C. That the Company begin allocating unaccounted for gas costs to interruptible customers when the Company files its next GSR application on September 1, 2004, to be effective November 1, 2004.

A proposed Order, which will implement the foregoing recommendations, is attached hereto.

Respectfully submitted,

/s/ William F. O'Brien
William F. O'Brien
Senior Hearing Examiner

Dated: July 16, 2004

estimated to be allocated to Interruptible Service customers.

"A T T A C H M E N T B"

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OF THE STATE OF DELAWARE**

IN THE MATTER OF THE APPLICATION OF)
CHESAPEAKE UTILITIES CORPORATION FOR)
APPROVAL OF CHANGES IN ITS FIRM)
TRANSPORTATION BALANCING RATE AND) PSC DOCKET NO. 03-489
ALLOCATION OF UNACCOUNTED FOR GAS)
METHODOLOGIES)
(FILED NOVEMBER 12, 2003))

PROPOSED SETTLEMENT

On this 1st day of July, 2004, Chesapeake Utilities Corporation, a Delaware corporation (hereinafter "Chesapeake" or the "Company"), and the other undersigned parties (all of whom together are the "Settling Parties") hereby propose a settlement that, in the Settling Parties' view, appropriately resolves certain issues raised in this proceeding.

I. INTRODUCTION

1. On November 12, 2003, Chesapeake filed with the Delaware Public Service Commission (the "Commission") a limited issue application for approval to change Chesapeake's methodologies for determining firm transportation balancing rates and allocating unaccounted for gas costs among its various customers. This application was filed pursuant to the terms and conditions of the settlement agreement approved by the Commission in PSC Docket No. 02-287F, Order No. 6268 dated September 9, 2003.

2. On or about April 15, 2004, the Commission Staff (the "Staff") filed its prefiled testimony. In the Staff's prefiled testimony, the Staff recommended approval of Chesapeake's proposal with respect to the calculation of firm transportation balancing

rates, but took issue with Chesapeake's proposal for allocating unaccounted for gas costs. In its prefiled testimony, the Staff submitted its own proposal on the unaccounted for gas cost issue.

3. Subsequently, on May 27, 2004, Chesapeake filed its rebuttal testimony in this docket pursuant to which it took issue with the Staff's proposal on the unaccounted for gas cost issue, and submitting a new proposal designed to address some of the Staff's concerns as expressed in the Staff's prefiled testimony.

4. During the course of this proceeding, the parties have conducted written discovery in the form of both informal and formal data requests.

5. The Settling Parties have conferred in an effort to resolve the cost allocation and recovery issues raised in this proceeding. The Settling Parties acknowledge that the parties differ as to the proper resolution of some of the underlying issues in this proceeding. Notwithstanding these differences, the Settling Parties have agreed to enter into this Proposed Settlement on the terms and conditions contained herein, because they believe that this Proposed Settlement will serve the interest of the public and the Company, while meeting the statutory requirement that rates be both just and reasonable.

II. SETTLEMENT PROVISIONS

Firm Transportation Balancing Rate Methodology

6. The Company will continue to use its current methodology for calculating firm transportation balancing rates for the Large Volume Service, High Load Factor Service and Seasonal Firm Service Rate Schedules as approved by the Public Service Commission ("Commission") in PSC Docket No. 95-73, Phase II.

7. The Company will update the following calculations contained in its firm transportation balancing methodology: the weighted average annual load factor, estimated imbalance, and average day to design day ratio on an annual basis at the time that it files its annual GSR application.

8. The remaining calculations will continue to be updated as with past GSR applications.

9. Changes to the transportation balancing rate methodology will be made when the Company files its next annual GSR application on September 1, 2004 to be effective November 1, 2004.

Allocation of Unaccounted for Gas Methodology

10. Unaccounted for gas volumes will continue to be calculated by multiplying the respective total sales volume for each month, including firm and interruptible sales, by a calculated percentage to arrive at the estimated unaccounted for gas volumes each month.

11. The calculated unaccounted for gas percentage will continue to be based on the most recent actual five-year history as approved by the Commission in PSC Docket No. 95-206.

12. Unaccounted for gas costs will be allocated to interruptible customers by increasing the weighted average interruptible cost of gas per Mcf for each month by the applicable unaccounted for gas percentage. This adjusted cost of gas per Mcf will then be multiplied by the interruptible sales volumes to arrive at the revised interruptible cost of gas reflecting the inclusion of unaccounted for gas costs. (See Step 1 of the Unaccounted for Gas Allocation Example attached hereto as Exhibit 1.)

13. Each year, at the time the Company files its annual GSR application, the Company will calculate a revised sharing threshold for that determination period in order to keep the Company and its customers whole based on the projected amount of unaccounted for gas costs to be allocated to interruptible customers. (See Step 2 of the Unaccounted for Gas Allocation Example, Exhibit 1.)

14. At the conclusion of the Margin Sharing period, in the event that the actual Shared Margins received is less than the adjusted sharing threshold as a result of the allocation of unaccounted for gas costs, the Company will make an adjustment at that time to make the Company and its customers whole. (See Step 3 of the Unaccounted for Gas Allocation Example, Exhibit 1.)

15. The procedure for adjusting the margin sharing threshold level based on the allocation of unaccounted for gas costs will be reviewed at the time of the Company's next base rate proceeding.

16. The Company will begin to allocate unaccounted for gas costs to interruptible customers when the Company files its next GSR application on September 1, 2004 to be effective November 1, 2004.

III. STANDARD PROVISIONS AND RESERVATIONS

17. The provisions of this Proposed Settlement are not severable.

18. This Proposed Settlement recommends a compromise for the purposes of settlement and shall not be regarded as a precedent with respect to any rate making or any other principle in any future case or in any existing proceeding, except that, consistent with and subject to the provisos expressly set forth below, this Proposed Settlement shall preclude any Settling Party from taking a contrary position with respect to issues

specifically addressed and resolved herein in proceedings involving the review of this Proposed Settlement and any appeals related to this Proposed Settlement. No party to this Proposed Settlement necessarily agrees or disagrees with the treatment of any particular item, any procedure followed, or the resolution of any particular issue addressed in this Proposed Settlement other than as specified herein, except that each Settling Party agrees that the Proposed Settlement may be submitted to the Commission for a determination that it is in the public interest and that no Settling Party will oppose such a determination. Except as expressly set forth below, none of the Settling Parties waives any rights it may have to take any position in future proceedings regarding the issues in this proceeding, including positions contrary to positions taken herein or previously taken.

19. In the event that this Proposed Settlement does not become final, either because it is not approved by the Commission or because it is the subject of a successful appeal and remand, each of the Settling Parties reserves its respective rights to submit additional testimony, file briefs, or otherwise take positions as it deems appropriate in its sole discretion to litigate the issues in this proceeding.

20. The Proposed Settlement will become effective upon the Commission's issuance of a final order approving this Proposed Settlement and all the settlement terms and conditions without modification. After the issuance of such final order, the terms of this Proposed Settlement shall be implemented and enforceable notwithstanding the pendency of a legal challenge to the Commission's approval of this Proposed Settlement or to actions taken by another regulatory agency or Court, unless such implementation and enforcement is stayed or enjoined by the Commission, another regulatory agency, or a Court having jurisdiction over the matter.

21. The obligations under this Proposed Settlement, if any, that apply for a specific term set forth herein shall expire automatically in accordance with the term specified, and shall require no further action for their expiration.

22. The Settling Parties may enforce this Proposed Settlement through any appropriate action before the Commission or through any other available remedy. The Settling Parties shall consider any final Commission order related to the enforcement or interpretation of this Proposed Settlement as an appealable order to the Superior Court of the State of Delaware. This shall be in addition to any other available remedy at law or in equity.

23. If a Court grants a legal challenge to the Commission's approval of this Proposed Settlement and issues a final non-appealable order which prevents or precludes implementation of any material term of this Proposed Settlement, or if some other legal bar has the same effect, then this Proposed Settlement is voidable upon written notice by any of the Settling Parties.

24. This Proposed Settlement resolves all of the issues specifically addressed herein and precludes the Settling Parties from asserting contrary positions during subsequent litigation in this proceeding or related appeals; provided, however, that this Proposed Settlement is made without admission against or prejudice to any factual or legal positions which any of the Settling Parties may assert (a) in the event that the Commission does not issue a final, non-appealable order approving this Proposed Settlement without modifications; or (b) in other proceedings before the Commission or other governmental body so long as such positions do not attempt to abrogate this Proposed Settlement. This Proposed Settlement is determinative and conclusive of all of the issues addressed herein

and, upon approval by the Commission, shall constitute a final adjudication as to the Settling Parties of all of the issues in this proceeding.

25. This Proposed Settlement is expressly conditioned upon the Commission's approval of all of the specific terms and conditions contained herein without modification. If the Commission should fail to grant such approval, or should modify any of the terms and conditions herein, this Proposed Settlement will terminate and be of no force and effect, unless the Settling Parties agree to waive the application of this provision. The Settling Parties will make their best efforts to support this Proposed Settlement and to secure its approval by the Commission.

26. It is expressly understood and agreed that this Proposed Settlement constitutes a negotiated resolution of the issues in this proceeding and any related court appeals.

IV. CONCLUSION

IN WITNESS WHEREOF, intending to legally bind themselves and their successors and assigns, the undersigned parties have caused this Proposed Settlement to be signed by their duly authorized representatives.

Chesapeake Utilities Corporation

By: /s/ C. James Moore A.V.P.

Delaware Public Service Commission Staff

By: /s/ Connie S. McDowell

Chesapeake Utilities Corporation
Delaware Division
Transportation Balancing & Unaccounted for Gas Filing
PSC Docket No. 03-489
Example of Unaccounted for Gas Allocation Methodology

Step 1: Determine UFG Estimated to be Allocated to Interruptible Customers

Weighted Interruptible Gas Cost	\$3,933,739
Interruptible Mcf Sales	690,880
Cost of Gas per Mcf	\$5,6938
Unaccounted for Gas %	3.89%
Cost of Gas w/ UFG	\$5,9153
Interruptible Cost of Gas	\$4,086,762

Unaccounted for Gas to Interruptibles	\$153,023
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Step 2: Determine Margin Sharing Threshold Adjustment

		<u>Impact on CUC</u>
Allocation of UFG	\$153,023	
CUC's Sharing Level	20%	
Amount lost – Current Margin Sharing Level	\$30,605	(\$30, 605)
Amount lost – Current Margin Sharing Level	\$30,605	
Gross Up to Keep CUC Whole	125%	
Resulting Dollar Amount	\$38,256	
Check:		
Additional Up-Front Share	\$38,256	
CUC's Sharing Level	20%	
CUC's Slated Share Absent Change	\$7,651	
Additional Up-Front Share	\$38,256	
Less: Slated Share	\$7,651	
CUC's Net Benefit	\$30,605	\$30,605
Overall Impact on CUC from UFG Change		\$0

Adjusted Margin Sharing Threshold Level	\$838,256
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Step 3: Determine Adjustment If Necessary at End of Period

	<u>After UFG</u>	<u>No UFG</u>
Total Shared Margins	\$1,111,635	\$1,264,658
1 st Sharing Level	\$838,256	\$800,000
2 nd Sharing Level	\$54,676	\$92,932
Total Shared Margins Retained	\$892,932	\$892,932
Adjustment for Next Determination Period		\$0
	<u>After UFG</u>	<u>No UFG</u>
Total Shared Margins	\$746,977	\$900,000
1 st Sharing Level	\$746,977	\$800,000
2 nd Sharing Level	\$0	\$20,000
Total Shared Margins Retained	\$746,977	\$820,000
Adjustment for Next Determination Period		\$73,023

Delaware Division

RATE SCHEDULE "GSR"

GAS SALES SERVICE RATES

(Continued)

MARGIN SHARING (Continued)

During the over/under period, the Company shall retain one hundred percent (100%) of all Shared Margins up to \$800,000. Thereafter, the Company shall retain twenty percent (20%) and the firm customers, as described above, will receive eighty percent (80%) of all Shared Margins in excess of \$800,000. Each year, at the time the Company files its annual GSR application, the Company will calculate an adjusted margin sharing threshold for that determination period as approved by the Commission in PSC Docket No. 03-489 to take into account the allocation of unaccounted for gas costs to interruptible customers.

UNACCOUNTED FOR GAS INCENTIVE MECHANISM

The Unaccounted For Gas Incentive Mechanism was originally approved by the Commission on an experimental basis for the following three consecutive twelve month ending periods: August 31, 1993, 1994 and 1995. The Commission reviewed the Incentive Mechanism and determined it should be continued beyond the initial three year period by Order No. 4189 in PSC Docket No. 95-206F.

DEFINITIONS

The terms utilized in the Unaccounted For Gas Incentive Mechanism shall have the following meanings:

1. Unaccounted For Gas shall be defined as the difference between total gas sales, billed and unbilled, and total gas send-out, exclusive of company use gas and pressure compensated gas volumes.
2. The Unaccounted For Gas Target (UFG-T) shall be 3.20 percent of total gas sendout or total gas requirements.
3. The Dead Band shall mean +/- 0.5% points around the 3.20% UFG-T. Unaccounted For Gas volumes which are within 2.70% to 3.70% of total gas sendout will be considered to be within the "dead band". Unaccounted For Gas volumes within the dead band will be regarded as meeting the objectives of this mechanism.

Issue Date:
Effective Date:
Authorization: